

USAID Technical Report No. 17

Export and Investment Promotion in Thailand

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April 1994

TABLE OF CONTENTS

	Page
Foreword	v
Summary	vi
Glossary	viii
1. Introduction	1
2. Economic Context	2
Thailand's Export Performance	2
Policy Environment and the Basis for Export Growth	6
Private Sector and the Constraints to Export-Led Growth	11
3. Market for Export and Investment Services	13
USAID's Approach to Export and Investment Promotion in Thailand	13
Background: Service Use and Impact	15
Service Use	17
Service Providers	20
Performance of Export and Investment Services Markets	23
4. Effectiveness of USAID-Assisted Service Providers	26
5. Rationale for USAID Intervention	29
6. Conclusions	31
Bibliography	

FOREWORD

Recent economic literature strongly suggests that outward-oriented economies with sound trade, investment, and export systems have achieved better development results than inward-oriented economies. The U.S. Agency for International Development (USAID) has devoted substantial resources to supporting outward-oriented growth through projects focused on export and investment promotion. Key questions facing donors are the following: Is export and investment promotion assistance worthwhile? Does it merit continued USAID support?

The Center for Development Information and Evaluation (CDIE) conducted a worldwide assessment of USAID's experience with export and investment promotion services. The purpose of the assessment was to evaluate the contribution of intermediaries providing services to exporters in developing countries, including such services as information (e.g., on foreign markets), contact making (e.g., with buyers), deal making, technical assistance, and government facilitation. Issues analyzed included the rationale for donor intervention; the impact of intervention on exports, jobs, and the market for support services; the return on USAID's investment; effective service strategies and service providers. The analysis was based on surveys of exporters in six countries, extensive interviews with service providers, and other sources.

For the assessment, CDIE focused initially on export and investment promotion projects in the Latin America and the Caribbean region. A desk review examining 15 projects resulted in the report *Promoting Trade and Investment in Constrained Environments: A.I.D. Experience in Latin America and the Caribbean*, USAID Evaluation Special Study No. 69. CDIE followed up with field visits to Guatemala, the Dominican Republic, Costa Rica, and Chile, which culminated in the synthesis report *Export and Investment Promotion: Sustainability and Effective Service Delivery*, USAID Program and Operations Assessment Report No. 2. In 1991, CDIE initiated fieldwork in Asia, examining programs in India, Indonesia, Korea, and Thailand. Four country reports were produced for the Asia phase of the assessment of which this report is one. CDIE also completed two crosscutting technical reports: *Measuring Costs and Benefits of Export Promotion Projects*, Technical Report No. 14 and *Service Use and Its Impact on Export Performance: Results of the Asia Survey*, Technical Report No. 18. In addition, CDIE conducted a desk review of similar projects in the Near East region resulting in the report "A Review of A.I.D. Experience with Export and Investment Promotion in Egypt and Morocco." The program assessment report *Export and Investment Promotion Services: Do They Work?* Program and Operations Assessment Report No. 6, draws on each of these technical reports to present key findings, conclusions, and management implications.

SUMMARY

By the late 1980s, Thailand had emerged as one of the fastest growing economies in the world, with manufactured exports leading the country's export boom. How can Thailand's outstanding success be explained? First, the fundamentals were in place: macroeconomic stability and effective foreign-exchange management with a realistic exchange rate. Second, duty-free import or drawback mechanisms were available to exporters, despite the antiexport tariff bias. Third, Thailand was in the right place at the right time. By 1987, the appreciation of the yen and other Asian currencies, coupled with rising wage rates in the newly industrialized countries, had led investors in developed countries to relocate or source in lower-wage cost sites, such as Thailand. Finally, trade promotion and tax-based incentives for export firms, although not critical, helped export firms.

This case study examines the contribution of subsidized export and investment promotion services to Thailand. USAID's Private Sector in Development project (1983-1987) aimed at increasing investment in export industries in Thailand. From an economic perspective, the project assumed that firms—both local manufacturers and foreign investors—could not take advantage of the real opportunities from investment in export-oriented ventures, given the weak market for information. The project sought to close the information gap facing the private sector to stimulate increased U.S. and Thai investment and more rapid export growth. This study reached three conclusions:

1. A stable macroeconomic policy regime, a realistic exchange rate, and an efficient manufacturing sector were critical to Thailand's outstanding export growth. Growing demand from exporters led to the emergence of a dynamic and diverse market for export and investment services. The existence of this service market provides little rationale for additional donor subsidies to accelerate export growth in Thailand.

2. Links between buyers and export firms are critical to stimulating export growth. An export promotion agency that facilitates ties between buyers and exporters in a favorable policy environment can help overcome entry barriers facing firms new to exporting. The Thai Department of Export Promotion (DEP) complemented the private market for export promotion services because of its service-oriented mission, outstanding staff, well-run overseas trade centers, and high-quality services.

3. Government institutions are not effective providers of investment promotion services if delivery of promotion services is not a primary institutional objective. The Thai Board of Investment's longstanding focus on tax-based investment incentives, its serious technical and bureaucratic limitations, and its uncertain commitment to investment

promotion have undermined its capacity to attract and generate investment. Contracting out promotion services to others did not lead to investment deals; promotion institutions must instead develop a clear vision of their promotional mandate and sufficient staff motivation to follow through.

GLOSSARY

USAID	U.S. Agency for International Development
BOI	Board of Investment in Thailand
CBI	Caribbean Basin Initiative
CDIE	Center for Development Information and Evaluation, USAID
DEP	Department of Export Promotion in Thailand
EPZ	export processing zone
FDI	foreign direct investment
FPO	Thailand Fiscal Policy Office
GDP	gross domestic product
IC	integrated circuit
IFCT	International Finance Corporation of Thailand
JACC	U.S. Joint Agricultural Consultative Corporation
LAC	Latin America and the Caribbean region
MFA	Multi-Fibre Agreement
NIC	newly industrialized country
PSD	Private Sector in Development project
TPO	trade promotion organization
USFCS	U.S. Foreign Commercial Service

1. INTRODUCTION

An important lesson for developing countries in the last decade has been that outward-oriented economies grow faster than inward-oriented economies. The Agency for International Development (USAID) has recognized the critical importance of trade liberalizing policies in stimulating outward-oriented growth, but there is still considerable debate about the contribution of export and investment promotion services. There are two questions:

- Has a favorable policy environment been enough, or has support for promotion services contributed to accelerating export growth in developing countries?
- If promotion makes a valuable contribution, what services and providers are most effective, and what is the economic justification for donor intervention?

This study on Thailand is part of a larger effort to examine USAID experience with export and investment promotion services worldwide. The first phase of the assessment examined export and investment promotion projects in Latin America and the Caribbean, focusing on successful programs in favorable policy environments. The current phase examines promotion services in four Asian countries—Korea, India, Indonesia, and Thailand—countries where USAID has carried out projects in different policy environments. This assessment draws heavily on a survey of nearly 300 exporting firms in six countries, including Thailand, to identify what services exporters in developing countries used, which services made a significant difference to their export success, and who provided them.

In Thailand in the 1960s, USAID promoted economic growth through macro-economic policy and export-related assistance. Again, in the 1980s, under the Agencywide Private Sector Initiative, USAID supported outward-oriented growth in Thailand, devoting resources to policy reform and projects providing export and investment promotion services. This assessment included Thailand as a country case study for several reasons. First, Thailand's outstanding export growth makes a good case for examining promotion programs in a highly favorable policy environment. Also, in the 1960s and again in the 1980s, the USAID program in Thailand had a strong private sector focus. The Private Sector in Development (PSD) project (1983-1987) examined in this report aimed at increasing investment in export industries in Thailand.

2. ECONOMIC CONTEXT

Thailand's Export Performance

By the late 1980s, Thailand had emerged as one of the fastest growing economies in the world. Although Thailand's growth rates averaged more than 7 percent in the 1960s and 1970s, its more recent growth is unprecedented. Between 1986 and 1989, real gross domestic product (GDP) increased 10 percent annually. Exports as a percentage of GDP had risen from 17 percent in 1970 to 38 percent by 1988. As illustrated in Table 1, Thai exports tripled in value between 1985 and 1990, with total exports in constant dollars rising from nearly 5.2 billion in 1985 to 15.5 billion in 1990.

Manufactured exports have led Thailand's export boom. Thailand's exports had been shifting from agriculture and primary commodities to manufacturing for more than 20 years. The overall structure of Thai exports has also changed. Manufacturing's contribution to the domestic economy has increased rapidly, whereas agriculture's contribution to GDP has declined. As illustrated in Figure 1, manufactures rose from about 10 percent of total exports in 1971 to 66 percent in 1990, while agriculture, principally primary commodities, dropped from 63 to 27 percent in this same period (Narongchai et al. 1991). Textiles and apparel has been the lead sector in the export boom.¹ Other sectors with outstanding gains since 1985 include jewelry, electronic components, integrated circuits, machinery parts, footwear, and processed and canned food. Traditional agricultural commodity exports (e.g., rice, maize, and tapioca) lost ground.

Moreover, Thailand has developed an increasingly broad and diversified export base. In 1990, no sector represented more than 9 percent of total export earnings, with the exception of clothing and textiles, which accounted for nearly 15 percent of the total. Thailand has excelled in various niche markets. Thailand is now the world's largest tuna exporter and exports frozen prawns to highly competitive markets, such as Japan's. Food processing industries have encouraged the diversification of agriculture, leading to tremendous success in canned and frozen food exports.

Imports also have experienced steady growth, rising from 10 percent of GDP in the 1960s to 22 percent in the 1985-1988 period. Before 1980, imports were biased to-

¹For the dozen years before 1985, textile exports still grew at 25 percent annually in nominal terms.

Table 1. Thailand Exports to OECD, 1965-1990
(million 1989 dollars)

	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	1,151	1,368	1,448	1,562	2,169	3,218	3,061	3,767	3,926	4,639	5,589	5,989
Food Products	437	460	549	592	745	1,396	1,672	1,960	1,738	2,015	2,256	2,065
Tobacco and Beverages	15	33	40	38	48	63	83	86	128	157	166	139
Crude Materials	598	535	501	489	646	788	513	667	753	766	1,017	1,213
Petroleum Products	1	0	2	2	7	0	0	3	4	0	0	0
Vegetable Oils	0	0	0	0	0	1	0	1	1	1	1	12
Chemicals	7	14	15	18	30	98	45	46	62	66	66	75
Resource Manufactures	75	298	296	356	554	697	558	711	920	1,127	1,482	1,774
Capital Goods	1	1	4	1	3	11	10	20	56	112	108	158
Miscellaneous Manufactures	6	11	16	45	117	143	163	254	250	374	471	529
Apparel	1	2	8	27	79	94	100	156	156	229	291	324
Miscellaneous Manufactures less Apparel	5	9	9	18	38	49	63	98	94	145	180	205
True Manufactures less Apparel	6	10	13	20	41	60	73	118	150	257	288	363
True Manufactures	7	12	20	46	120	153	173	274	306	486	578	687
All Manufactures	89	324	331	420	703	949	775	1,031	1,287	1,679	2,126	2,536
All Primary Products	1,051	1,029	1,091	1,122	1,446	2,249	2,269	2,716	2,623	2,940	3,439	3,428
Annual Growth Rates (%)												
Apparel		23	265	247	197	18	7	56	0	47	27	11
True Manufactures		12	70	127	159	28	13	59	12	59	19	19
True Manufactures less Apparel		11	29	55	107	46	21	63	27	71	12	26
All Manufactures		29	2	27	68	35	-18	33	25	30	27	19
Primary Products		0	6	3	29	56	1	20	-3	12	17	0
All Exports		29	2	27	68	35	-18	33	25	30	27	19

Table 1. Thailand Exports to OECD, 1965-1990
(million 1989 dollars) (cont.)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1965-1990 (%)	1985-1990 (%)
Total	5,434	5,161	4,752	5,190	5,256	6,565	8,324	11,058	13,418	15,491	11.0	24.1
Food Products	2,247	2,526	2,088	2,050	2,062	2,684	3,054	3,572	3,929	4,213	9.5	15.4
Tobacco and Beverages	105	111	90	76	58	68	65	48	62	64	6.0	2.1
Crude Materials	857	597	638	679	659	654	804	1,123	1,072	935	1.8	7.2
Petroleum Products	0	0	0	19	58	100	70	59	100	120	22.5	15.6
Vegetable Oils	13	11	12	9	14	8	12	11	12	13	22.0	-0.3
Chemicals	77	69	53	72	68	81	85	116	139	156	13.4	17.9
Resource Manufactures	1,333	1,041	976	1,017	970	1,041	1,285	1,631	1,877	2,192	14.4	17.7
Capital Goods	200	181	247	446	415	626	836	1,573	2,374	3,130	39.6	49.8
Miscellaneous Manufactures	570	572	613	788	916	1,256	2,052	2,753	3,745	4,538	30.4	37.7
Apparel	343	342	356	483	531	630	982	1,204	1,490	1,677	36.2	25.9
Miscellaneous Manufactures less Apparel	227	230	256	305	385	626	1,069	1,549	2,255	2,860	28.7	49.3
True Manufactures less Apparel	427	410	503	751	799	1,252	1,905	3,123	4,629	5,990	31.8	49.6
True Manufactures	770	753	859	1,234	1,330	1,882	2,887	4,326	6,119	7,668	32.5	42.0
All Manufactures	2,179	1,863	1,889	2,322	2,369	3,004	4,257	6,072	8,135	10,015	20.8	33.4
All Primary Products	3,221	3,246	2,829	2,834	2,852	3,513	4,004	4,815	5,175	5,346	6.7	13.4
Annual Growth Rates (%) (cont.)												
Apparel	6	0	4	36	10	19	56	23	24	13		
True Manufactures	12	-2	14	44	8	42	53	50	41	25		
True Manufactures less Apparel	18	-4	23	49	7	57	52	64	48	29		
All Manufactures	-14	-15	1	23	2	27	42	43	34	23		
Primary Products	-6	1	-13	0	1	23	14	20	7	3		
All Exports	-14	-15	1	23	2	27	42	43	34	23		

Note: OECD = Organization for Economic Cooperation and Development.

ward final consumer goods and capital equipment, but soon thereafter shifted to intermediate inputs and capital goods for manufacturing.

Policy Environment and the Basis for Export Growth

For several decades the Thai Government has supported macroeconomic stability and credible exchange rate management, important prerequisites for outward-oriented growth (IBRD 1987). Government policies have kept inflation down, at an average of less than 7.5 percent since 1960. The Government has avoided large fiscal deficits and excessive foreign debt. In the early 1980s, faced with oil price hikes and declining revenue from raw material exports, the Government coped with a rising current account deficit and escalating inflation by tightening financial policies. It devalued the baht, kept the baht in parity with the U.S. dollar, and supported a realistic real exchange rate. By 1985, the result was a substantial real devaluation that provided a critical impetus to Thai exports. Thailand's export success is often attributed to the Government's able management of macroeconomic policies, its "fiscal and monetary conservatism" (Narongchai 1989).

However, unlike Taiwan and Singapore—"Asian tigers" that have achieved significant export success—the Thai Government has not pursued a neoclassical export strategy based on full liberalization of trade in manufactures. Rather, Thailand's trade liberalization has been partial, incremental, and sometimes internally inconsistent (Narongchai 1989).

From 1960 to the early 1980s, the Thai Government pursued import substitution policies that gave substantial protection to domestic manufacturing through a complex system of tax incentives, tariff duties, business taxes, and import restrictions. The Government carried out these policies through various government agencies. The Board of Investment (BOI) granted income tax breaks and exemptions from import duties on imported machinery, equipment, and raw materials. Import duties set by the Ministry of Finance, import supervision conducted by the Ministry of Commerce, and firm-entry controls and domestic content requirements by the Ministry of Industry all favored firms manufacturing for the local market. The International Finance Corporation of Thailand (IFCT) complemented these tax benefits with financing.

The Government has relied on import tariffs to generate revenue and to control the entry of luxury goods, but increasingly import tariffs have served to protect domestic industry. Tariff rates, which ranged from 15 to 30 percent for most commodities in the 1960s, had risen for final goods to a range of 30 to 150 percent by the late 1970s. However, the Government kept the tariffs on intermediate goods, raw materials, and capital goods below 30 percent. The effect was significant protection for import substituting activities and a bias against exports. By the early 1980s, the Thai Government had recognized the need for reforming these protectionist policies and had implemented a series of revisions in its tariff structure. But these revisions achieved only minimal improvements. One indication of sustained antiexport bias was that the average effective

rate of protection for manufacturing in 1985 was 50 percent (IBRD 1987, 18). Another study concludes that the rising level of import protection between 1985 and 1989 led to a greater "gap between the incentives provided to exporters and to import-competing producers" (Narongchai et al. 1991, 16) (IBRD 1987, 17).²

While the Thai Government maintained a realistic exchange rate and conservative monetary and fiscal policies, it also pursued an export strategy based on trade promotion and investment incentives. The Government provided credit assistance to exporters through subsidies and discounted promissory notes throughout the 1980s, until U.S. threats to impose countervailing duties led to its discontinuation. The Bank of Thailand also provided export credit assistance. The Government expanded and upgraded the DEP, establishing overseas trade centers, holding trade fairs, and providing foreign market information to exporters. The Government overhauled the BOI investment incentive system, giving exporters access to its general package of investment incentives for the first time. Increasingly, the BOI gave export-related investments greater priority than import substitution investment. The BOI eliminated import duties and business taxes on capital equipment, raw material and intermediate inputs for eligible exporters, and exemptions from corporate income tax. Exporters also used the duty drawback and duty exemption privileges offered by the Customs Department and the Fiscal Policy Office (FPO) (IBRD 1987).³

By the early 1990s, the Thai Government had made a serious effort to tackle trade liberalization, while undertaking a major tariff reform. The tariff reform organizes imports into categories, subjecting goods in each category to the same rate of import duty. The Government also announced the elimination of most of the tax and duty incentives offered by the BOI. The result of these efforts will be a more neutral and simpler import tax structure, which will not unduly disadvantage exporters.

Since Thailand is a recent convert to thorough trade liberalization, how can Thailand's export success be explained? First, the fundamentals were in place: macro-economic stability and effective foreign exchange management with a steadily depreciating real effective exchange rate. Second, duty-free import or drawback mechanisms were available to exporters, despite the antiexport tariff bias. Third, trade promotion, credit, and tax-based incentives for export firms, although not critical, have helped export firms.

Thailand was also in the right place at the right time. By 1987 most Asian currencies were rising against the U.S. dollar and the Thai baht. These sudden currency changes, coupled with rising wage rates in the newly industrialized countries (NICs),⁴ led

²Narongchai documents that the simple-average import duty rose from 31.3 percent in 1981 to 39.4 percent in 1989.

³Exporters preferred the BOI prior-exemption system over the more costly and cumbersome individual drawback systems of the Commerce Department and the FPO.

⁴NICs included Hong Kong, South Korea, Taiwan, and Singapore.

many investors in developed countries and even the "Asian Tigers" to relocate or source in lower-wage-cost sites in developing countries, such as Thailand. As Figure 2 illustrates, foreign direct investment (FDI) in Thailand increased significantly in the late 1980s. Net FDI flows had risen from \$351 million in 1987 to \$2.4 billion by 1990, a ninefold increase.⁵ Japan had increased its share of FDI in Thailand from 22 percent in 1981 to 45 percent in 1990; Korea, Taiwan, Singapore, and Hong Kong significantly increased their FDI in Thailand (Figure 3). The manufacturing sector absorbed more than 50 percent of total FDI in Thailand from 1987 to 1990, and foreign investors shifted increasingly into export-oriented projects. Firms from developed countries were also expanding sourcing or contract production arrangements in low-wage-cost countries, such as Thailand (Egan and Mody 1992) (Hill and Suphachalasai 1992).

Moreover, Thailand was an attractive site for exporting manufactures. Continuity in government existed despite several relatively nonviolent coups. There was an open foreign investment regime, capital was subject to few international restrictions, and the commercial and financial infrastructure was adequate. Thailand's ethnic Chinese community had strong links to the multinational East Asian Chinese business networks, facilitating ties to buyers and investors. Finally, at this stage in its development, Thailand offered low wages with a literate and trainable labor force (Lewis and Kapur 1990) (Hill and Suphachalasai 1992).

Perhaps most important were supply-side factors: the flexibility and efficiency of the Thai economy. Several recent studies of Thailand's economy attributed its outstanding export performance in the 1980s to the increased competitiveness of its manufacturing sector. The recent Thai manufacturing export boom is not simply a result of rising world demand (nor the rapid growth in FDI). A look at sufficiently disaggregated data shows that the Thai manufacturing sector has been exporting many new products and has been significantly increasing its market share of more traditional manufactured exports. This represents a major structural shift in the nature and orientation of the Thai manufacturing sector (Narongchai et al. 1991) (Hill and Suphachalasai 1992).⁶ One reason for this efficiency and competitiveness of the domestic economy was the low-wage cost and trainability of Thailand's labor force, which also served to attract foreign investment.

Hill and Suphachalasai's study of apparel provides some valuable insights into why Thai exports have been so competitive. First, the Thai apparel industry achieved outstanding export success despite the tariff barriers of the Multi-Fibre Agreement (MFA) by conquering new non-MFA markets. Thai apparel exports were smuggled into neigh-

⁵Bank of Thailand data gathered from quarterly and monthly bulletins.

⁶The Hill and Suphachalasai study found that more than one-half of Thailand's manufactured export growth between 1982 and 1987 can be attributed to increased competitiveness.

boring countries (Burma, Laos, Malaysia, and Kampuchea). Thai apparel manufacturers had to enter export markets if they wanted to continue on a fast growth track. The large Thai workforce in the Middle East provided an entre for Thai exports in the Middle East market, and Japanese investors and trading companies provided links to the quota-free Japanese market. Second, Thai apparel manufacturers upgraded product quality and moved into more sophisticated product categories. This allowed Thai manufacturers to move into new categories where Thailand was still far from nearing a quota ceiling and to increase the value of their exports in categories where they increased quota ceilings. Focusing on tariff barriers as a constraint on export growth diverts attention from an important basis of export growth—efficiency and supply-side factors (Hill and Suphachalasai 1992). As this study on apparel exports concludes,

If high growth can be sustained by efficient exporters in these cases [Thailand and Indonesia], then in the more benign market conditions which characterize international trade in most manufactures, supply-side factors are obviously of critical importance. Any exposition, theoretical or empirical, which highlights alleged demand-side constraints is likely to be misleading (Hill and Suphachalasai 1992, 327).

Private Sector and the Constraints to Export-Led Growth

The private sector has played a critical role in Thailand's phenomenal export growth. However, several factors have influenced the type of growth achieved and will affect future export performance.

First, Thailand lacks a coherent policy for industrial development. Until very recently, entrenched business interests opposed to trade liberalization held back reforms in the tariff and tax structure and ensured these businesses retained control over government incentives. Import substitution industrialization helped the private sector grow and become more autonomous of the Government. The large and increasingly powerful Sino-Thai conglomerates in Thailand operated independently of the Government, while gaining increasing control over Thai Government policy through informal lobbying. They placed Thai bureaucrats on the boards of these firms and strengthened private sector control of trade associations. The result was an often inefficient government bureaucracy, which was unable to counteract the import substitution bias of industrial policy (Rock 1991) (Prasartset 1982).

A second constraint facing future Thai export growth is the dualistic character of key sectors of Thai manufacturing. One example is the electronics industry. One segment of the Thai electronics industry is the highly competitive export-oriented electronic parts and components subsector. Another segment is the heavily protected consumer and industrial finished electronic products subsector, which is not competitive internationally. Government policies, both export promotion and import substitution, have encouraged the segmentation of this industry. The boom in integrated circuit (IC) assembly for the export market by U.S. multinationals did not result in any backward linkages with local industry.

Rather, local industry is reimporting ICs assembled in Thailand for the export market (Brimble 1991). The same problem of dualism is characteristic of the automobile industry in Thailand, which has been subject to heavy-handed import substitution policies (Lam and Fong 1991) (Brimble 1991).

The point is that government policies may be inhibiting the development of intermediate industries. Indirect exporters (i.e., firms subcontracted to produce intermediate goods as inputs to export products) have been denied access to the many benefits and incentives offered to direct exporters (IBRD 1987) (Brimble 1991). If countries with lower production costs, such as Bangladesh or Cambodia, can draw away assembly operations from Thailand, there has to be a competitive supporting industry to enable Thai industry to attract investment and compete in higher-value-added export sectors.

Another major obstacle to continued export growth in Thailand is the shortage of technical and managerial personnel, particularly engineers and technicians. Thailand lacks the highly skilled specialists necessary for technological innovation that its competitors are developing. Thailand has one-tenth of the engineers that Taiwan has on a per capita basis. Thailand's universities have only 15 percent of its graduates in scientific and technological fields, whereas Korea has nearly 40 percent. Thailand may not sustain the dynamic comparative advantage of its competitors without a highly skilled, technologically proficient human resource base (Pack and Westphal 1986) (Lewis and Kapur 1990). Moreover, in the mid-1980s Thailand's rates of secondary school enrollment were low, far below enrollment rates for Indonesia or the Philippines.

3. MARKET FOR EXPORT AND INVESTMENT SERVICES

USAID's Approach to Export and Investment Promotion in Thailand

USAID has been committed to stimulating private-sector-led economic growth in Thailand since the late 1960s. USAID's Private Sector Development program (1969-1972) worked to expand the private sector's role in Thailand's economic development, through institution building, policy support, and direct promotion of U.S. and Thai investments. The \$3.4 million project extended advisory assistance and training to private sector associations as well as government agencies, including the BOI, the Ministry of Industry, the Ministry of Commerce, the Bank of Thailand, and the IFCT. USAID was effective in training Thai counterparts in these institutions but was less successful in developing the BOI's capacity as a provider of investment promotion services and the IFCT as an industrial development bank. USAID did achieve substantial collaboration between the Thai Government and the private sector through public/private commissions, such as the Joint Industrial Products Export Commission (USAID/Thailand 1972) (Muscat 1990).

By the mid-1970s, USAID's focus had shifted to promoting rural industry to stimulate economic growth and employment outside Bangkok. However, by 1979 the oil price rise had spurred the Thai Government to concentrate on macroeconomic stabilization and a competitive open trading strategy. Therefore, in the 1980s, USAID's private sector strategy targeted export-led growth to support the Thai Government's efforts to expand the role of the private sector as a "key agent of change" in the Fifth Development Plan. USAID's PSD project (1983-1987) sought to increase private sector investment in employment-generating, export-oriented, natural-resource-based investment primarily outside metropolitan Bangkok (USAID/Thailand 1983a).

The rationale for the project, as written in the Project Paper, was that information gaps, institutional limitations, and policy disincentives pose serious constraints to full and effective private sector participation in Thailand's economic development. The paper argued that (1) Thai firms lacked access to technology, managerial techniques, and market information needed to be effective exporters; (2) U.S. business had poor knowledge of Thai business opportunities, inhibiting investment; and (3) Thailand faced intense competition for foreign investment from neighboring countries, many of which had more effective investment promotion programs.

Institutional constraints, specifically the BOI's ineffectiveness in providing relevant services to attract U.S. investors, and policy limitations, such as regulatory and tax-related obstacles, were also seen as inhibiting private sector investment in export-oriented activities. From an economic perspective, the assumption was that firms—both local manufacturers and foreign investors—could not take advantage of the real opportunities from investment in export-oriented ventures, given the weak market for information. The PSD project sought to close the information gap facing the private sector, leading to more U.S. and Thai investment and more rapid export growth. The \$5.5 million program⁷ had three main components:

- It provided technical assistance to the BOI to mount an investment promotion campaign to attract U.S. direct investment to selected Thai industrial and agribusiness sectors (\$2.54 million from USAID with an additional in-kind contribution of \$1.5 million from the BOI).
- It established a mechanism for the Thai private sector to undertake policy studies and dialogue on issues affecting private sector development (\$460,000 with \$60,000 in addition from the RTG, and \$360,000 from the Thai private sector).
- It assisted the Thai counterpart of the U.S. Joint Agricultural Consultative Corporation (JACC) to establish linkages with U.S. organizations to encourage business cooperation and technology transfer (\$75,000 with an equal amount from the Thai private sector).

The first and largest component aimed at closing the information gap by providing investment promotion services and overcoming institutional obstacles facing the BOI. Since the BOI had served principally as a regulatory body, screening investment and providing investment incentives, the intent was to strengthen the BOI's capacity as a provider of investment promotion services. U.S. and Thai consulting firms provided investment analysis and services to the BOI. These services ranged from undertaking promotional campaigns in the United States, to developing a matchmaking data base to support investment promotion activities, to assisting the BOI both to help U.S. investors find Thai joint venture partners and to develop an investment promotion strategy. The assumption was that the *private sector* had the technical expertise lacking in a *government* agency to launch an effective investment promotion campaign. To address policy obstacles facing the private sector, another program component supported greater private sector dialogue with the Thai Government through research on key policy issues. A third component addressed the special needs of agroindustry through technical cooperation between U.S. and Thai agroindustry.

⁷This figure includes USAID and Thai counterpart contributions.

Background: Service Use and Impact

Key questions examined in this study are, Do export and investment promotion services contribute to export growth? and if so, Which services and providers are most effective? Addressing these questions involved drawing on the experience of Thai exporting firms with these services and examining the market evolution for providing such services.

First, to elicit the firms' views on service use and impact, the team interviewed firm managers. The intent was to identify services firms use in deciding to invest in export-oriented firms or get into exporting; which services had the greatest impact; and who provided these services. Of particular interest was getting a firm-level perspective on the investment promotion services of the BOI. The questionnaire covered five categories of services provided directly to exporters or investors: (1) information (e.g., export markets and investment climate); (2) contact making (e.g., buyer contacts, trade shows, and investment missions); (3) preinvestment or preexport support (e.g., feasibility studies and investment profiles); (4) technical assistance (e.g., production, marketing, and training); and (5) government facilitation (e.g., paperwork and customs).

The sample consisted of exporting firms selected randomly from directories of exporting firms available from Thai Government agencies, including the BOI and DEP, and from private exporter associations.⁸ The sample included Thai firms participating in the USAID PSD project to the extent feasible given the difficulty in locating these firms. The sample was limited to firms in five leading manufactured-export sectors in Thailand: food processing, garments, footwear, electronics, and automotive parts.⁹ The sample included wholly owned subsidiaries of foreign firms, Thai foreign joint ventures, and locally owned firms. Of the 43 firms interviewed, 34 were 100 percent Thai owned, 7 were Thai foreign joint ventures, and 2 were wholly owned subsidiaries of foreign companies. It was not possible to select a stratified sample based on firm ownership given data limitations of firm lists; rather, the breakdown was a result of random selection from available lists of export firms. This ownership breakdown is relatively representative of export firms in Thailand, since the sample reflects ownership trends in specific sectors. For example, Thai ownership predominates in garments, footwear, and

⁸The sample was drawn from several sources, because no one directory provided a comprehensive listing of export firms in Thailand. Although the sample included 60 firms, the team was able to interview managers in 43 firms.

⁹These manufacturing groups accounted for about one-third of Thailand's exports in 1989.

automotive parts, whereas foreign ownership predominates in electronics and, to a lesser extent, food processing (Brimble 1991).¹⁰ Finally, to increase the probability that managers interviewed were with the firm when it began exporting, the team attempted to include only firms in operation for more than 1 year and fewer than 10 years. The objective was to get firsthand recollections.¹¹

Firms in the sample had an average of \$9.4 million in export sales and 1,082 employees in 1991.¹² Not surprisingly, these sales and employment levels varied substantially by sector. Firms in food processing and electronics tended to have higher export sales than firms in garment, footwear, and automotive part industries.¹³ Finally, firms surveyed followed a similar pattern across sectors, with the primary markets in North America and Europe, followed by other Asian countries and Japan.

Second, to examine the performance of service markets the team interviewed providers of export and investment-related services in Thailand, and observers. The aim was to assess the demand from Thai or foreign firms for export or investment-related services, their experience with service delivery, and the growth of the service provider market. Of particular concern was whether subsidized providers filled a significant service

¹⁰Analysis of BOI data on project startups in the five subsectors examined (1985-1991) indicate that startups with more than 10 percent foreign ownership predominate in electronics, are modest in auto parts and food processing, and are negligible in footwear. Startups with 100 percent Thai ownership are significant in food processing and footwear. The BOI is not a credible source of information on ownership in the garment industry because these manufacturers relied on duty drawback arrangements other than the BOI. Interviews with the garment industry association in Thailand and the DEP confirmed that Thai ownership predominates in apparel.

¹¹Eighty-one percent of the manufacturing executives and 64 percent of the agribusiness firms met these criteria.

¹²It should be noted that several firms in the sample distorted the employment figures cited. Two firms had significantly more employees than the "typical" firm; these were large-scale Thai conglomerates whose employees were principally devoted to producing for the domestic market rather than for export. While their export sales were comparable with the others', their rate of employment was far higher. Excluding these 2 firms from the sample, the average number of employees was 623 and average export sales were \$9.2 million.

¹³On average, the export share in the food processing industry is higher (nearly 60 percent of sales) than in other industries in the sample (29 percent), with the exception of foreign subsidiaries in the electronics industry that produce electronics components entirely for export to parent firms. The automotive parts industry has the lowest export share. However, it is considered to be an emerging export industry, particularly for markets in the region, and a key source of indirect exports, supplying inputs to exporters of automobiles from Thailand.

gap facing exporting firms. Providers contacted included government export and investment promotion agencies, industry associations, chambers of commerce, trading companies, retailers, importers, consulting firms, and other private institutions that provide such services. The team conducted hour-long interviews with more than 22 service providers and held a followup focus group session with another 10 providers. The team also interviewed USAID officials and experts on the Thai economy.

Service Use

All firms interviewed were active users of export and investment-related promotion services. Firms used an average of 13 such services and identified at least 3 services as critical to their entry into exporting or leading to investment in an export-oriented venture.¹⁴ Exporters' use of, and the value they place on, particular services appears to reflect firms' revealed preferences—demand for and actual consumption of services. The users of services, the firms interviewed, achieved high levels of export growth. Export sales of firms surveyed rose on average more than 50 percent between 1986 and 1991.

Firms evaluated each service based on whether the service had a significant impact on their export entry or decision to invest. As Table 2 illustrates, the five most valued services in rank order are buyer contacts, foreign market information, sector-specific information, production-related technical assistance, and marketing technical assistance.

The importance of buyer contacts and foreign market information holds across all five industrial groups. Technical assistance for production was another service that most firms identified as critical to their investment decision and export success. The fact that buyer contacts, market information, and production-related technical assistance are services highly used and valued by export firms reflects, to a large extent, a specific pattern of Thai manufactured exports. The export pattern differs from the standard textbook one.

Trade theory usually describes the firm as producing identical or similar products in response to market demand or differentiating its product through advertising and other marketing means. Many exports from the firms surveyed, however, are parts of a product under contractual arrangements with multinational corporations, retail outlets, or trade brokers. This is particularly true in the case of electronics and automotive-parts exports and a large share of footwear exports. Similarly, for finished products, such as pro-

¹⁴The 32 services included in the questionnaire appear adequate for capturing all the important services firms used. Only a very few firms responded to the catchall "other services" listed.

Table 2. Exporter Service Use in Thailand

Type of Service	Number of Firms Using	Percent of Firms	
		Receiving Service	Impacted by Service
More than Half of Firms Impacted			
Buyer Contacts	37	86	81
Market Information	30	70	70
Sector-Specific Information	33	77	67
Production/Processing Assistance	29	67	56
Marketing	26	60	51
40-50 Percent of Firms Impacted			
Sample Preparation	23	53	49
Customs Assistance	25	58	47
Information on Country	28	65	44
Training	25	58	42
Overseas Representation	20	47	40
Fewer Than 40 Percent of Firms Impacted			
Trade Missions	21	49	37
Trade Shows	21	49	33
Site-Visit Support	18	42	33
Credit Facilitation	22	51	33
Approvals/Paperwork	21	49	33
Government Contacts	16	37	33
Firm-Specific Market Research	16	37	28
Legal Assistance	19	44	28
In-Country Q&A	18	42	26
Deal Making	12	28	26
Accounting Assistance	20	47	26
Feasibility Studies	14	33	23
Management	14	33	23
Other Private Contacts	8	19	16
Other Information	6	14	14
Directories	15	35	14
Financing for R&D	10	23	14
Proposal Development	8	19	14
One-Stop Shop	6	14	12
Other Preinvestment	3	7	7
Other Technical Assistance	3	7	5
Lobbying/Policy Reform	3	7	5
Other Government Facilitation	2	5	2
TOTAL SERVICES USED	572		
Average per firm	13.3		

Source: Survey data

cessed food and garments, Thai exports are produced to buyers' orders under specific brand names, quality specifications, and fashion and design requirements.¹⁵ This pattern of exporting reflects increased product line and brand specialization, as well as global market segmentation.

The dramatic rise in Thai exports also reflects the fact that firms in developed countries or NICs have set up sourcing arrangements with low-wage-cost Thai firms or have invested in export operations in Thailand. Under such a trade pattern it is not surprising that buyer contacts, knowledge of specific markets, and sector-specific technical know-how are highly in demand. Recent studies have confirmed the importance of buyer-seller links in export development in developing countries (Egan and Mody 1992) (Keesing and Lall 1988) (Rhee and Belot 1988). "For developing country suppliers [exporting firms], long-term collaborative relationships with developed country buyers are often an essential source of information about developed country markets and production technology as well as product quality and delivery standards" (Egan and Mody 1992, 321).

Not surprisingly, Thai-owned firms differed from joint ventures or wholly owned subsidiaries in their needs for export-related services. For example, Thai-owned firms used three times as many services as did joint ventures or firms wholly owned by foreign investors. Thai-owned firms placed a higher value on buyer contacts, foreign market information, and technical know-how than did firms owned partly or entirely by foreign investors. Joint ventures and subsidiaries also highly valued sector-specific and country-specific information, government contacts, and customs assistance. These differences reflect the greater need of Thai-owned firms for market-related information, contacts, and technical assistance from the outside world. However, joint ventures and foreign subsidiaries already have a service-provider link in the foreign investor, who brings corporate access to market information, buyers, and technical know-how.

Export firms also used different types of services depending on their sectoral specialization. Electronics firms placed great importance on customs assistance, reflecting the high and diverse content of their imports—either capital goods or semifinished products. Any delay results in higher production costs; consequently, speedy customs clearance is in demand. A recent IFCT study on Thailand concluded that delays in customs procedures were felt most by firms in the electronics industry (Brimble 1991). Firms in the footwear industry highly valued sample preparation, because many firms in the industry produce to specific orders requiring international quality standards. Getting buyers' technical guidance in meeting these standards through effective sample preparation is critical to retaining long-term relationships with buyers (Egan and Mody 1992).

Finally, barriers to accessing buyers were greatest for firms just entering exporting. These firms were most eager for information about overseas markets and identifying buyers, because they lacked access to the networks of retailers and importers available to

¹⁵Exporters interviewed introduced an average of nine new products over the last 5 years and did so principally at the behest of known buyers.

more established firms. More established exporters were interested in buyer contacts and production-related assistance giving them greater direct access to buyers and less dependence on intermediaries. Joint ventures and wholly owned subsidiaries, however, placed a high value initially on sector- and country-specific information to understand the investment climate. Later, they used services to move into production (e.g., legal assistance and government paperwork support).

Service Providers

Most exporters interviewed looked principally to buyers, including retailers and importers, for export-related services. Foreign partners followed in importance as a significant source of services. However, government sources, particularly the DEP, filled a large gap facing export firms; 17 percent of all firms interviewed used DEP's services. As Table 3 illustrates, firms interviewed gave the most credit for their entry into exporting or their export expansion to their buyers, but Thai-owned export firms gave nearly 30 percent of the credit to the Thai Government. Private sector firms that charge for services (e.g., consulting firms, law offices, and accounting firms) and firms that do not charge (e.g., chambers of commerce and universities) were relatively insignificant suppliers of services.

Table 3. Attribution of Credit for Export Success: Share of Credit (percent)

Source of Service	All	Local	Intl.	JV	Sub
Buyers	37	43	16	19	0
Thai Government	24	29	7	7	10
Foreign Partners	15	4	65	63	70
Suppliers	11	13	3	4	0
Private Sector	10	10	9	7	20
Donors	2	3	0	0	0
Total	100	100	100	100	100

Source: Survey data.

Note: Intl. = International; JV = Joint Venture; Sub. = Subsidiaries

Firms obtained different export and investment promotion services from different sources. Table 4 presents the principal providers for services rated highest by firms surveyed.

Exporters looked to the Thai Government as a source of highly valued services, such as customs assistance, buyer contacts, overseas representation, country- and sector-specific information, marketing assistance, and training. But the Thai Government closed a significant service gap for only local firms, particularly for such services as buyer contacts, overseas representation, and trade shows. This trend reflects the importance of the DEP's overseas commercial offices, its system for facilitating exporter contact with buyers, and its trade show support for local exporters. In firm interviews, new export entrants consistently cited the DEP as a significant source of buyer contacts, whereas established firms made contacts through their previous links to buyers and investors. Foreign firms relied modestly on the Thai Government, principally for government contacts, customs assistance, and country information.

Exporters did not look to the Government for preinvestment or preexport services (e.g., site visit support, legal assistance, and feasibility studies). Instead, they relied on sources internal to the firm, on buyers, or on the for-profit private sector (e.g., consulting, accounting, or law firms). Nearly 30 percent of exporters, mostly foreign firms, relied on the for-profit private sector for such services. One reason for this is that preinvestment or preexport services require more technical expertise and more sector-specific knowledge than the Government could provide.

Exporters typically went outside the firm to get technical assistance. Buyers, followed by foreign partners, were the principal source of *production-related assistance*, *marketing assistance*, and *training*. Interviews with consulting firms revealed that Thai-owned firms were reluctant to pay the fees of private providers, such as consulting firms. Still, the DEP was cited as a highly valued source of marketing assistance.

The Thai Government and for-profit private sector (e.g., customs agents) were the only valued providers of *customs assistance*, a service ranked highly by firms surveyed. The survey indicates that clearing customs is still a significant problem for exporters in Thailand.

In sum, buyers dominate the market for export-related services. However, the Government, specifically the DEP, is active in providing buyer contacts and overseas representation—services that facilitate access to buyers, who are a critical link in the export service market.

Table 4. Sources of High-Impact Services
(percent)

Type of Service	Firms Using	Source of Service					Total
		Foreign Partner	Buyer/ Supplier	Thai Govt.	Donor/ Other Govt.	Private Sector	
Buyer Contacts	79	15	37	33	0	15	100
Market Information	70	23	50	15	4	8	100
Sector-Specific Information	67	25	25	21	21	8	100
Production/Processing Assistance	56	32	53	0	5	11	100
Marketing	51	36	36	21	0	7	100
Customs Assistance	47	0	0	55	0	45	100
Information on Country	47	28	6	28	17	22	100
Sample Preparation	47	22	67	11	0	0	100
Training	42	20	30	20	0	30	100
Overseas Representation	40	27	27	33	0	13	100

Source: Survey data.

Performance of Export and Investment Services Markets

The private market for export support services in Thailand has grown significantly in recent years. Buyers in particular—retailers, importers, and trading companies—are actively involved in providing services to Thai exporters to get reliable deliveries of the required product at a competitive price. Retailers from developed countries use their network of international representatives to buy finished products, such as garments or footwear, from Thailand. Similarly, importers buy products, such as frozen shrimp, from Thai manufacturers, often reselling to retailers, such as supermarket chains, in developed countries. Manufacturers in developed countries, such as National Semiconductor, also establish subsidiaries or contractual relationships with producers of components, such as ICs, which are incorporated into their own products before resale. Finally, trading companies (typically from Japan) also serve as buyers, principally of finished products for resale.

Growth in this market is evident in the rapid increase in the number of trading companies currently operating in Thailand. Industry observers estimate that the number grew from fewer than five in 1980 to several dozen in 1992. A 1991 U.S. publication for businesspeople coming to Thailand lists 14 such trading companies (USFCS 1991), but interviews with firms in Thailand led to the identification of 6 more. Japanese trading companies, such as Mitsubishi, have been very active suppliers of information and services to Japanese firms investing in export-oriented ventures in Thailand. However, cost considerations have limited the clientele to larger Japanese firms. Smaller Japanese firms rely more on brokers, personal contacts, and Japanese Government agencies promoting offshore investment.¹⁶ Thai trading companies have become suppliers of services to Thai exporters in recent years. In 1985, following the removal of the Government ban on Thai trading companies¹⁷ and the provision of BOI incentives, major Thai conglomerates set up separate trading companies to serve as export divisions of their firms.¹⁸ Importers from developed countries have been establishing highly successful trading companies in Thailand, largely because of their strong links to retailers abroad. The profits of one trading company visited rose from \$500,000 in 1986 to \$20 million in 1991 and is expected to more than double in the next 5 years. Still, competition within this market varies substantially by sector. Buyers specializing in canned seafood, shoes, and garments face severe and rising competition from importers, retailers, and other buyers. However, those specializing in the higher technology exports, such as frozen foods, are fewer and face less competition. There are more barriers to entry in higher technology exports because of strict quality control standards for such products in importing countries.

¹⁶Interview with Mr. Motoda, Japanese Adviser at the BOI.

¹⁷The ban on trading companies was part of the Government's early efforts to protect the domestic manufacturing sector.

¹⁸It is unclear whether these Thai trading companies have been successful.

The public sector DEP has complemented the services provided by buyers and investors to exporters in Thailand. The DEP maintains a computerized trade information data base, arranges trade fairs and missions, conducts training for exporters, and provides advisory services to both foreign buyers and exporters. Demand for DEP services has increased significantly over the last decade because of the inflow of buyers and the dramatic rise in the number of export firms. Using a selection process that weeds out firms not fully able to export, the DEP includes approved firms in a directory, "Selected List of Exporters."¹⁹ The DEP promotes Thai exporters through its 14 overseas trade centers and 24 commercial counsellors in Thai embassies and by circulating its directory of approved Thai exporters.

Firms surveyed had a consistently high opinion of the DEP as an export-service institution. Firms new to exporting in traditional export sectors, such as garments and shoes, gave substantial credit for their access to buyers and investors to the DEP. Buyers, other private sector providers, and exporting firms interviewed remarked on the very high quality of the DEP staff in Bangkok and in overseas offices; DEP's high-caliber information services and trade missions; and its good reputation as a government agency. The DEP provides Thai firms new to exporting access to the network of buyers, which is dominated by established exporters, and responds to foreign buyers' demand for Thai firms with excess capacity or at least the ability to absorb their orders.²⁰ Still, Thailand's sustained export success is leading the Government to reflect on its continued subsidy of the DEP.

The market for investment-related services has been undergoing a similar expansion, particularly since 1987. This market, which includes consulting firms, accounting firms, law firms, and investment banks, is small but increasingly competitive. Moreover, Thai firms have become more active and sophisticated as service providers relative to foreign competitors in recent years. A U.S. publication lists 29 business consulting firms in Thailand that offer services in joint venture selection, business research and information, market research, investment consulting, and feasibility studies (USFCS 1991). However, this private for-profit market serves primarily foreign firms, not Thai investors. Thai firms tend not to use private firms to find a joint venture partner, largely because of the high cost and uncertainty about the quality of the final product. Rather, the majority of Thai firms rely on buyers, brokers, or personal connections. Large Thai firms access services from investment banks.

There are several barriers to entering this services market. The first entry barrier is product differentiation. Given the high cost of services, particularly consulting, firms need to tailor services to specific client groups. They also require access to important

¹⁹The selection process requires firms to initiate contact with the DEP which then reviews the capacities of firms for exporting.

²⁰Given the strong demand from buyers, the DEP currently makes available a "nonselected list" of exporters since most firms on the "selected list" are currently running at full capacity.

information about the local economy, especially given the reluctance of local firms to share production and trade "secrets." Another entry barrier is the human resource capability. Access to highly skilled, reputable, and experienced professionals, preferably with language skills, is critical for investment-related services. This is a significant barrier given the shortage of highly skilled professionals and restrictions on the entry of foreign nationals. Another barrier is government policies and regulatory requirements that limit entry into this service market in certain sectors, such as banking, shipping, and insurance.

Foreign donors are playing an increasingly active role in the investment services market in Thailand. Several foreign governments, including Japan, France, and Germany, have placed advisors at the BOI to assist firms from their countries interested in investing in Thailand. The United States has not had an advisor at the BOI, but the U.S. Foreign Commercial Service (USFCS) provides much the same services advising U.S. firms interested in exporting to or investing in Thailand and the American Chamber of Commerce of Thailand, a private membership-based organization, similarly advises investors. These entities act as "information and contact brokers" for foreign investors particularly in the initial stages of exploring their various options. They provide general information about investing in Thailand (e.g., culture, location, and labor); provide contacts to local accountants, lawyers, and consulting firms; assist with government paperwork (e.g., their application for BOI incentives); and, in a few cases, act as a consulting service on how to manage the company in Thailand. Japan, in particular, provides a very comprehensive package of services to potential Japanese investors, often helping them with every stage of the process. Moreover, the Japanese Government is strengthening the capability of Thai firms to be effective partners with Japanese investors by providing Thai firms with sector-specific technology services and training through JETRO, its investment promotion agency, and by supporting intermediate industry development in Thailand.

The BOI's role in this market has been primarily to give tax breaks to foreign and Thai investors in export industries. Although the BOI provides promotion services to investors—a "one-stop-shop" investment services center, government facilitation, partner identification services to promote joint ventures, and investment missions—it has given very little priority to this service delivery function. For example, donors have been the primary funding source for BOI investment missions. Recently, the BOI has been expanding the scope and range of investment-related services, such as by improving its "one-stop service center," establishing an information and matchmaking service for Thai and foreign investors interested in joint ventures, and upgrading information provision by BOI regional offices. However, these reforms reflect the BOI's efforts to reconfigure itself since its role as a provider of tax incentives is becoming obsolete, given the lowering of government tariff rates on machinery and the introduction of a value-added tax. Firms surveyed gave the BOI fair to good marks for its facility in dealing with the Government.

4. EFFECTIVENESS OF USAID-ASSISTED SERVICE PROVIDERS

USAID assistance under the PSD project (1983-1987) was not effective in accelerating the rate of foreign investment in export-oriented ventures or the rate of export growth in Thailand. The project assumed that investment missions to the United States arranged by private consulting firms for the BOI would be the most effective tool for generating U.S. investment. Although the required tasks were completed competently, USAID's assistance had very little impact on U.S. investment in Thailand, based on project evaluations, BOI records, followup interviews, and firm-level survey data.

The three USAID-assisted investment promotion missions to the United States focusing on the electronics, metal fabrication, and agribusiness sectors were successfully completed. The investment missions were effective in educating managers of U.S. firms about the investment climate in Thailand. U.S. managers who attended the mission events found the presentations informative and benefited highly from testimonials from firms currently operating in Thailand.²¹

USAID-contracted consulting firms launched a public relations campaign to "sell Thailand" to potential investors in a series of magazine and newspaper articles about Thailand in 1985. However, the U.S. and international news media did not extensively profile the Thai economy until several years later when Thai exports really boomed. Without a costly survey of readers, it is very difficult to assess the effectiveness of this public relations campaign.

With contractor assistance, the BOI set up a data base of 150 Thai firms looking for joint ventures with U.S. investors. However, this matchmaking data base fell into disuse. The BOI unit responsible for investment promotion services was not involved in joint venture identification, and the data base was not maintained. In 1991, the BOI was reestablishing a joint venture matchmaking service, in part because its role as a provider of investment incentives was disappearing.

Although these efforts may have stimulated investor interest, they did not generate investment deals. Only one U.S. firm started up operations in Thailand as a direct result of these investment promotion efforts, and that firm went bankrupt. U.S.

²¹The team conducted interviews by phone with 10 U.S. managers involved in this activity and in person with the BOI and Thai representatives on these missions.

firms contacted had increased investment in the Thai electronics sector, but these ventures took place before and independently of the USAID project. Twenty U.S. companies contacted made return visits to Thailand, but no investments resulted.

Analysis of BOI data on foreign investors reveals that between 1985 and 1989 U.S. investors started up five export operations, valued at \$230 million, in Thailand. Investors from Japan started up 42 export projects, valued at \$5.1 billion, and investors from other Asian countries (Taiwan, Singapore, China, Malaysia, Hong Kong, Korea) started up another 32 export projects, valued at \$2.1 billion (Table 5). Although these data do not reflect all FDI in export operations, they provide some indication that U.S. direct investors in export-oriented ventures did not increase significantly in recent years. Rather, recent U.S. direct investment appears to have focused on the Thai domestic market, not the export market, based on the views of investment firms in Thailand.²²

Table 5. Startups by Foreign Firms Investing in Thailand and Exporting
More Than 50 Percent of Total Output
1985-1991

Source of Ownership	Number of Startups	Total Investment (millions of dollars)
Japan	42	5,104
Other Asian Countries	32	2,177
European Economic Community	5	852
Other Countries	3	646
United States	5	230

Source: Board of Investment

Why did U.S. direct private investment in export-oriented activity in Thailand not increase as expected? First, USAID, the consulting firms, and the BOI had unrealistic expectations about generating investment in export firms in Thailand. Selling the country, or attracting investment, became the primary objective even though the original intent was to generate U.S. investment in priority export sectors. The investment missions found that many U.S. firms contacted did not know where Thailand was. U.S. managers expected the Thai private sector to "sell" itself and to be aggressive in wooing them with specific opportunities, as Taiwan and Korea had. But the investment missions to the United States demonstrated that Thailand first needed to change its image as a place to invest. Like other investment promotion institutions in developing countries, the BOI used these investment missions prematurely in its zeal to bring in investment deals. Selling the country is a more appropriate technique in the initial stages of attracting investment, but this approach does not immediately generate investment (Wells and

²²Interviews with George Hooker and Peter Brimble.

Windt 1990). Successful investment-promotion institutions, such as the Coalition for Development Initiatives in Costa Rica, had to adjust their promotion techniques to generate investment effectively.

Moreover, the BOI and the U.S. consulting firms had insufficient knowledge of the motivation of potential U.S. investors and the capability of the Thai firms. The investment missions targeted large publicly held U.S. firms that would be interested in major investment projects. However, the investment opportunities in Thailand in the 1980s were principally in labor-intensive industries, which typically involved investment in joint ventures or contract production²³ (Rhatigan and Suntharaks 1987). U.S. firms still needed to learn about the Thai investment climate and the technical and managerial capabilities of Thai firms. Managers of U.S. firms approached by the missions were dismayed by the lack of concrete information and followup by the BOI and potential joint venture partners. U.S. firms' requests for samples were ignored or responded to well after the promised date. The Thai business community faced a steep learning curve in their understanding of the requirements of U.S. investors. Moreover, in some subsectors, Thai firms were too underdeveloped to be effective investment partners. The lack of a tool and die industry in Thailand put off U.S. investors contacted during the BOI metal fabrication mission.

Third, A.I.D. assumed that U.S. consulting firms could strengthen the BOI's investment service capacity. One USAID manager affirmed that USAID wanted to "fix [the BOI]" but "fixing it wasn't possible." The BOI was and continues to be staffed largely by "old line bureaucrats," whom many observers consider untrainable. In 1991, the BOI senior management acknowledged that the BOI bureaucracy needed to be streamlined and technically upgraded to fulfill its investment services function, but civil-service-salary limits restricted senior managers from obtaining the necessary technical expertise. Foreign investors use the BOI as an intermediary between private industry and the Government. The BOI provides "trouble shooting services" for foreign investors in their dealings with the Government. Foreign subsidiaries and joint ventures interviewed used the BOI for "government facilitation" services not for help in identifying joint venture partners.

Finally, the timing was off, since the investment missions coincided with the U.S. recession in the mid-1980s. In this credit-crunch period of double-digit interest rates, U.S. firms, such as electronics manufacturers in Silicon Valley, were reluctant to invest abroad despite the best intentions of the investment mission.

²³Interviews with John Mathison, Stanford Research Institute and Thomas Seale, Executive Director, American Chamber of Commerce in Thailand.

5. RATIONALE FOR USAID INTERVENTION

The principal economic rationale cited for donor intervention in the markets for export and investment services in developing countries is market failure. One measure of a country's economic development is how well market institutions function. When market institutions function badly—for example, in gathering and disseminating reliable information—markets will fail or will not form.²⁴

However, all markets—for example, labor, credit, or agriculture—require certain foundations or they tend to function less efficiently and unfairly. Many aspects of market foundations can be viewed as public or collective goods and require collective action, such as from the government. These include macroeconomic policies (e.g., monetary stability), a financial system, a system of property rights, a rule of law that enforces property rights and contracts, and a system of information.

Some have attributed market failure to inadequate or undeveloped market foundations and policies, but markets also fail when they involve public goods. The distinguishing characteristic of a public good is its indivisibility; some individuals cannot be excluded from the benefits, which gives rise to the "free-rider" problem. Public goods also generate "spillover benefits," which cannot be priced nor charged to all those benefiting. Market failures can also result from industries with supernormal returns because of monopoly power, labor immobility, or other factors.

In the case of investment and export services, donors can play a role in correcting failures in the information market by helping the private sector or government fill information gaps facing potential investors and exporters. There are inherent difficulties in information markets. For example, information cannot be generated efficiently by private markets, particularly because information is often costly to gather but cheap to disseminate. Other problems are the credibility and reliability of information and accessing disinterested "official" sources. Consequently, there is an argument for interventions that will improve the functioning of markets for information by filling gaps particularly facing firms new to exporting or new to investing in the country, thereby addressing market failures.

²⁴In neoclassical economic theory (the "welfare optimizing" model), the existence of market failures is summed up in the functioning of the price mechanism. Market failures exist when the price mechanism does not work well.

Currently in Thailand, no compelling evidence exists of significant market failures warranting future donor intervention. The market foundations (e.g., macroeconomic stability and a financial system) were well established to prevent serious market failure. In the market for information, there was a rationale for the DEP to respond to information gaps facing Thai firms new to exporting particularly in the 1980s. The USFCS and the American Chamber of Commerce of Thailand have played and are playing a similar information-broker role, filling information gaps facing potential U.S. investors.

Moreover, private market institutions for export and investment services—principally buyers, trading companies, investment firms, and banks—are growing and vibrantly active in providing most services demanded. These private providers tend to offer services, such as production or marketing technical assistance, that are more firm specific than information and contact-brokering services currently provided on a subsidized basis. Government or donor intervention in these markets is not warranted because firms are buying these services as parts of contracts with their buyers or of their relationship to their foreign partners, or they are paying for these services.

6. CONCLUSIONS

This study of export and investment services in Thailand comes to a number of conclusions that have important programming implications for USAID

1. A stable macroeconomic policy regime, a realistic exchange rate, and a flexible and efficient manufacturing sector were fundamental to Thailand's outstanding export growth. This export growth led to the emergence of a dynamic and diverse market for export and investment services. The growth of service-provider markets in the late 1980s closely paralleled the rapid expansion of manufactured exports. The emergence of active and competitive export-support-services markets provides little rationale for future donor subsidies to accelerate export growth in Thailand.

2. Thailand was in the right place at the right time. In the mid-1980s, the devaluation of the Thai baht, the appreciation of the Japanese yen and other Asian currencies, rising wages in the NICs, and low wages in Thailand contributed to increased interest in Thailand. Firms in Japan, the United States, Western Europe, and even the NICs were eager to relocate or source in lower-wage-cost sites in Asia. Thailand was a lucky beneficiary.

3. Links between buyers and export firms are critical to stimulating export growth. Buyers, and often foreign partners, are frequently an essential source of information and services for exporters in developing countries. They provide direct and potentially long-term access to foreign market information, buyer contacts, and production-related technical assistance. An export promotion agency that facilitates ties between buyers and exporters in a favorable policy environment can fill an information gap and help overcome market-entry barriers facing firms new to exporting. The DEP complemented the private market for export promotion services because of its service-oriented mission, outstanding staff, well-run overseas trade centers, and high-quality services.

4. Government institutions are not effective providers of investment promotion services, if delivery of effective promotion services is not a primary institutional objective. The BOI's longstanding focus on tax-based investment incentives, its serious technical and bureaucratic limitations, and its uncertain commitment to investment promotion have undermined its ability to attract and generate investment. Contracting out promotion services to others did not lead to investment deals. Moreover, if the institution has no stake in delivering services effectively, expert advisory services have little impact. Rather, promotion institutions must develop a clear vision of their promotional mandate and sufficient staff motivation to follow through.

Table 1. Thailand Exports to OECD (million constant 1989 dollars)

	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Total	1,151	1,368	1,448	1,562	2,169	3,218	3,061	3,767	3,926	4,488	5,017
Food Products	437	460	549	592	745	1,396	1,672	1,960	1,738	2,033	2,361
Tobacco and Beverages	15	33	40	38	48	63	83	86	128	151	181
Crude Materials	598	535	501	489	646	788	513	667	753	817	911
Petroleum Products	1	0	2	2	7	0	0	3	4	2	2
Vegetable Oils	0	0	0	0	0	1	0	1	1	2	2
Chemicals	7	14	15	18	30	98	45	46	62	66	66
Resource Manufactures	75	298	296	356	554	697	558	711	920	1,187	1,471
Capital Goods	1	1	4	1	3	11	10	20	56	111	111
Miscellaneous Manufactures	6	11	16	45	117	143	163	254	250	273	303
Apparel	1	2	8	27	79	94	100	156	156	222	222
Miscellaneous Manufactures less Apparel	5	9	9	18	38	49	63	98	94	141	181
True Manufactures less Apparel	6	10	13	20	41	60	73	118	150	252	282
True Manufactures	7	12	20	46	120	153	173	274	306	484	504
All Manufactures	89	324	331	420	703	949	775	1,031	1,287	1,623	1,933
All Primary Products	1,051	1,029	1,091	1,122	1,446	2,249	2,269	2,716	2,623	3,865	3,084
Annual Growth Rates (%)											
Apparel		23	265	247	197	18	7	56	0	8	8
True Manufactures		12	70	127	159	28	13	59	12	12	12
True Manufactures less Apparel		11	29	55	107	46	21	63	27	11	11
All Manufactures		29	2	27	68	35	-18	33	25	0	0
Primary Products		0	6	3	29	56	1	20	-3	3	3
All Exports		29	2	27	68	35	-18	33	25	0	0

Table 1. Thailand Exports to OECD (million constant 1989 dollars) (Cont.)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1965-1990 (%)	1985-1990 (%)
Total	5,434	5,161	4,752	5,190	5,256	6,565	8,324	11,058	13,418	15,491	11.0	24.1
Food Products	2,247	2,526	2,088	2,050	2,062	2,684	3,054	3,572	3,929	4,213	9.5	15.4
Tobacco and Beverages	105	111	90	76	58	68	65	48	62	64	6.0	2.1
Crude Materials	857	597	638	679	659	654	804	1,123	1,072	935	1.8	7.2
Petroleum Products	0	0	0	19	58	100	70	59	100	120	22.5	15.6
Vegetable Oils	13	11	12	9	14	8	12	11	12	13	22.0	-0.3
Chemicals	77	69	53	72	68	81	85	116	139	156	13.4	17.9
Resource Manufactures	1,333	1,041	976	1,017	970	1,041	1,285	1,631	1,877	2,192	14.4	17.7
Capital Goods	200	181	247	446	415	626	836	1,573	2,374	3,130	39.6	49.8
Miscellaneous Manufactures	570	572	613	788	916	1,256	2,052	2,753	3,745	4,538	30.4	37.7
Apparel	343	342	356	483	531	630	982	1,204	1,490	1,677	36.2	25.9
Miscellaneous Manufactures less Apparel	227	230	256	305	385	626	1,069	1,549	2,255	2,860	28.7	49.3
True Manufactures less Apparel	427	410	503	751	799	1,252	1,905	3,123	4,629	5,990	31.8	49.6
True Manufactures	770	753	859	1,234	1,330	1,882	2,887	4,326	6,119	7,668	32.5	42.0
All Manufactures	2,179	1,863	1,889	2,322	2,369	3,004	4,257	6,072	8,135	10,015	20.8	33.4
All Primary Products	3,221	3,246	2,829	2,834	2,852	3,513	4,004	4,815	5,175	5,346	6.7	13.4
Annual Growth Rates (%) (Cont.)												
Apparel	6	0	4	36	10	19	56	23	24	13		
True Manufactures	12	-2	14	44	8	42	53	50	41	25		
True Manufactures less Apparel	18	-4	23	49	7	57	52	64	48	29		
All Manufactures	-14	-15	1	23	2	27	42	43	34	23		
Primary Products	-6	1	-13	0	1	23	14	20	7	3		
All Exports	-14	-15	1	23	2	27	42	43	34	23		

Table 2. Exporter Service Use in Thailand

Type of Service	Number of Firms Using	Percent of Firms	
		Receiving Service	Impacted by Service
More than Half of Firms Impacted			
Buyer Contacts	37	86	81
Market Information	30	70	70
Sector-Specific Information	33	77	67
Production/Processing Assistance	29	67	56
Marketing	26	60	51
40-50 of Firms Impacted			
Sample Preparation	23	53	49
Customs Assistance	25	58	47
Information on Country	28	65	44
Training	25	58	42
Overseas Representation	20	47	40
Fewer than 40 of Firms Impacted			
Trade Missions	21	49	37
Trade Shows	21	49	33
Site-Visit Support	18	42	33
Credit Facilitation	22	51	33
Approvals/Paperwork	21	49	33
Government Contacts	16	37	33
Firm-Specific Market Research	16	37	28
Legal Assistance	19	44	28
In-Country Q&A	18	42	26
Deal Making	12	28	26
Accounting Assistance	20	47	26
Feasibility Studies	14	33	23
Management	14	33	23
Other Private Contacts	8	19	16
Other Informaion	6	14	14
Directories	15	35	14
Financing for R&D	10	23	14
Proposal Development	8	19	14
One-Stop Shop	6	14	12
Other PreInvestment	3	7	7

Other Technical Assistance	3	7	5
Lobbying/Policy Reform	3	7	5
Other Government Facilitation	2	5	2
TOTAL SERVICES USED	572		
Average per firm	13.3		

Source: Survey data

Table 3. Attribution of Credit for Export Success: Share of Credit

Source of Service	All	Local	Intl.	JV	Sub
Buyers	37%	43%	16%	19%	0%
Thai Government	24%	29%	7%	7%	10%
Foreign Partners	15%	4%	65%	63%	70%
Suppliers	11%	13%	3%	4%	0%
Private Sector	10%	10%	9%	7%	20%
Donors	2%	3%	0%	0%	0%
Total	100%	100%	100%	100%	100%

Source: Survey data.

Table 4. Sources of High-Impact Services

Type of Service	Percent of Firms Using	Source of Service (%)					Total
		Foreign Partner	Buyer/ Supplier	Thai Govt.	Donor/ Other Govt.	Private Sector	
Information on Country	47	28	6	28	17	22	100
Sector-Specific Information	67	25	25	21	21	8	100
Overseas Representation	40	27	27	33	0	13	100
Market Information	70	23	50	15	4	8	100
Buyer Contacts	79	15	37	33	0	15	100
Sample Preparation	47	22	67	11	0	0	100
Production/Processing Assistance	56	32	53	0	5	11	100
Marketing	51	36	36	21	0	7	100
Training	42	20	30	20	0	30	100
Customs Assistance	47	0	0	55	0	45	100

Source: Survey data

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